AR58

Winspear Business Reference Room
University of Alberta
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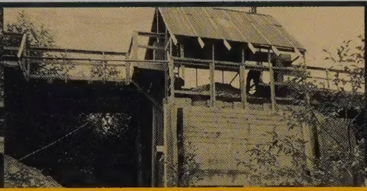
Edmonton, Alberta T6G 2R6

NEWMEX Minerals Inc.

1998 ANNUAL REPORT

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ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will take place at 1:00 p.m. on June 28th, 1999, at The Laurel Point Inn, 680 Montreal St., Victoria, British Columbia.
Phone 604-386-8721

All shareholders and others interested in the affairs of the company are welcome to attend.

1998 HIGHLIGHTS

January		February		April		May	
26	Asset Purchase and Reorganization	19	Chocolate Peak Economic Assessment Results	6	Shareholders approve 5:1 Consolidation	25	Normal Course Issuer Bid
				28	Kilo becomes Newmex Minerals Inc.		

CORPORATE PROFILE

In March 1998, shareholders of Kilo Gold Mines Ltd., approved a 5:1 share consolidation and asset purchase from Proprietary Energy Industries Inc., accompanied by a change in the company name to Newmex Minerals Inc. (NMM)

Operating from its head office in Calgary, Alberta, Newmex is a Canadian-based, junior mining company committed to the acquisition, development and operation of a portfolio of mining properties capable of yielding near-term cashflow. Newmex's current portfolio is comprised of mining properties at various stages of development in Canada and the United States.

NEWMEX CAPITAL STRUCTURE

Total voting common shares (authorized, issued and outstanding)	3,329,099
Total common shares subject to escrow agreement	2,582,875
Total issued and outstanding	5,911,974

1999

October		April	
16	Proprietary disposes of Newmex Shares	15	Privateer produces a 20.5 ounce gold bar

PRESIDENT'S MESSAGE

1998 marked a significant turning point for Kilo Gold Mines Ltd. With shareholder approval for a 5:1 share consolidation in March 1998, Newmex Minerals Inc. came into being with a new mandate to focus upon the acquisition, development and operation of a portfolio of mining properties capable of yielding near-term cash flow.

Up until this point, Proprietary Energy Industries Inc. (75 per cent) and Kilo Gold Mines Ltd. (25 per cent) owned the majority of the company's mining assets. With the consolidation, Proprietary received 4,282,875 post-consolidation common shares valued at $1.00/share, a demand note for $475,875, and stock option for 475,875 shares at $1.00 per share. In October, Proprietary sold a portion of its Newmex shares to two Swiss pension funds. Each of these institutions acquired 750,000 shares for $1.00 per share cash. A private Canadian company acquired the remaining shares, which were subject to an escrow agreement, in exchange for a promissory note. As a result of this transaction, 72.4 per cent of Newmex's 5,911,974 shares were sold. These transactions have had a beneficial impact on Newmex, serving to strengthen the company's financial position.

Subsequent to year-end, Newmex issued 1,055,345 shares to Proprietary in payment for the $675,420 advance over the past year. Consequently, Proprietary now owns 15 per cent of Newmex's total shares outstanding and approximately 32 per cent of the shares currently eligible to vote.

Throughout the course of the year, work continued on the company's various mining ventures with some encouraging results. In February, Newmex received an Initial Economic Assessment report on two independent drilling programs conducted on its Chocolate Peak property in Grant County, New Mexico. The assessment revealed that resource outcrops at the surface contained average grades of 0.25 per cent copper; 0.29 per cent zinc; and 0.50 per cent manganese with drill hole intercepts of mineralized rock ranging from 0 to 15 feet to 0 to 260 feet. With these results in hand, the company plans to undertake a supplemental drilling program later this year.

In April 1999, milling at the Privateer mine near Zeballos on Vancouver Island also produced promising results. Of the 22 tons of ore milled to date, the company succeeded in producing a 20.5 ounce bar of gold. Milling of 220 tons of mined ore, plus 80 tons of ore on-site, is currently under way. Once completed, an additional 700 tons of vein material will be mined and processed under the existing bulk sample permit.

Management believes that today's depressed commodity prices, and the lack of capital available to fund mining exploration and production operations, have placed Newmex in a good position for growth. Current market conditions have in fact already created opportunities for Newmex. In the fall of 1998, Newmex staked a total of 102 unpatented claims near Nevada's Carlin Trend Gold Belt. This opportunity materialized for the company when the previous owner was unable to pay the yearly rental fee to the U.S. Bureau of Land Management. Newmex also has its eye on a variety of additional opportunities in the Nevada area, as well as other prospects in the Americas, that management believes will complement our existing portfolio of properties.

In closing, I would like to take this opportunity to thank our shareholders for their patience and support over the past year. 1998 has certainly been a year marked by change, but we are confident that these changes will enable us to acquire, develop and operate a portfolio of producing mining properties with near-term cash flow that will bring increasing value to our shareholders.

On behalf of the Board of Directors,

Peter J. Workum
President

CHOCOLATE PEAK

Chocolate Peak, New Mexico

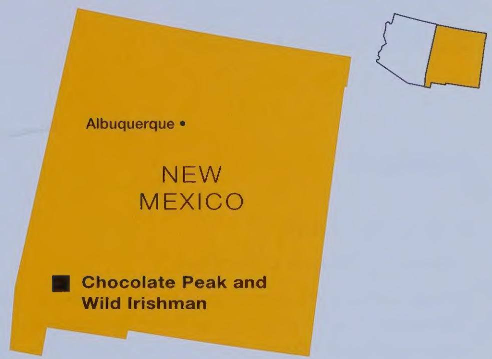
The mineral rich Arizona/New Mexico porphyry copper belt currently supports the activities of numerous mines and smelters. Located in western Grant County six miles west-south-west of the Tyrone open pit copper mine, Newmex's Chocolate Peak project holds particular promise for the future.

Originally, Newmex's lease was for 12 claims covering 240 acres. However, an additional 155 claims were staked in 1997 increasing the company's claim to approximately 3,300 acres. The "Big Dipper Group", one of the original deeded claims, covers a 1,300 foot by 1,000 foot disseminated polymetallic oxide occurrence with scant overburden.

In September 1997, Newmex received encouraging results from seven bulk surface samples on the site taken from a 700 by 700 foot exposed outcrop of mineralized rock. Metallurgical testing indicated continuity of potentially economic values of copper and zinc across the outcrop area. The values of copper ranged from 0.1 per cent to 0.6 per cent, and values of zinc ranged from 0.15 per cent to 0.29 per cent. A 196-hour sulfuric acid, agitation leach test (bottle roll test) conducted on the composite sample yielded 77.63 per cent recovery for copper and 70 per cent recovery for zinc. These results were useful in validating the metallurgical test results reported by the former lessee of the property.

In February 1998, Newmex received an Initial Economic Assessment summarizing the combined results of two separate drilling programs conducted on the Chocolate Peak site including a five-hole, NX wireline core sample drilling program conducted by Newmex in October 1997, and a 12-hole drill program completed by the former lessee. Resource outcrops at the surface are reported to average 0.25 per cent copper; 0.29 per cent zinc; 0.50 per cent manganese with drill hole intercepts of mineralized rock ranging from 0 to 15 feet to 0 to 260 feet. Prepared by Henkle & Associates of Reno Nevada, the report also revealed that there is a high probability of expanding the resource, and it is anticipated that the South Mineralized Zone could add an additional 18 million tons to the existing resource.

Although permitting could take three to five years, the Company expects to mine Chocolate Peak at a rate of one million tons per year as an open pit, heap leach mine. Based on the original resource calculation of eight million tons, this would equate to an eight-year mine life bringing an anticipated operating profit of almost US$21 million. The company believes that this resource can likely be expanded both across the faults and in the open direction and has chosen drill locations to test this theory. Drill permits have been received and a limited drilling program is proposed for later in 1999.



WILD IRISHMAN

Grant Co., New Mexico

Newmex holds a 100 per cent interest in the Grant County Wild Irishman claim. The Wild Irishman prospect consists of a number of unpatented mining claims located in Grant Co., New Mexico, near the Tyrone open pit copper mine. The claims overlie, and are adjacent to, a massive quartz/calcite/barite epithermal vein system. Over two miles of strike on the vein system, which outcrops along Sprouse-Copeland Fault Zone, has been staked.

To date, the company has identified a promising potential siliceous ore resource that suggests the possibility of a supergene enriched copper zone. Newmex is in the process of conducting further exploration before production will be considered feasible.

PRIVATEER MINE

Zeballos, British Columbia

In January 1998, Newmex purchased a 25 per cent interest in the Privateer mine near the town of Zeballos on Vancouver Island, British Columbia, for $25,000 in cash. The remaining 75 per cent was purchased by Proprietary for $75,000. The acquisition includes a 100 per cent interest in the mineral rights to 34 claims totaling approximately 1,068 acres as well as an operational mill on-site.

Discovered in 1936, Privateer was considered at the time to be a "wonder mine," and prospectors and representatives from major mining companies around the world were all seen on the streets of Zeballos. A Tacoma, Washington smelter considered Privateer ore to be the richest it had ever received.

Production on Privateer began in 1938 on three veins along 1,460 feet of strike and 600 vertical feet. From late 1939 to 1941, approximately 2,400 ounces of gold per month were produced from the mine. Despite the fact that mining at the site declined during the Second World War, approximately 150,000 ounces of gold from a high-grade underground narrow vein system has been produced over the past 50 years. More than 15 productive veins have been worked on the property, and samples assaying up to 361.24 ounces of gold per ton have been recorded.

In June 1998, Newmex was granted a 900 ton bulk sampling permit resulting in the mining of 220 tons of ore. Eighteen tons of this ore was shipped to a small mill in the interior of British Columbia. Encouraging results led management to upgrade the existing tailings pond to hold an additional 900 tons. The balance of the 220 tons of mined ore, plus 80 tons of existing ore currently on-site, is being milled. In April 1999, Newmex reported that preliminary milling had resulted in the production of a 20.5 ounce bar of gold from approximately 22 tons of ore. The on-site mill is now fully permitted and in operation.

SUN, SNOW AND LA CLAIMS

Northwest Territories

Given its commitment to projects capable of generating near-term cash flow, Newmex has elected not to continue geological mapping and geochemical sampling work required to maintain title on the Sun, Snow and LA claim blocks. At this time, the company believes its resources can be more profitably applied to other prospects.

NORTHERN CARLIN TREND PROJECT

Elko County, Nevada

Since the fall of 1998, Newmex has funded the staking of a total of 102 unpatented mining claims in two separate areas adjacent to, and possibly within, a northern extension of Nevada's prolific Carlin Trend Gold Belt. Newmex has a 75 per cent interest in this project.

The mines of the Carlin Trend produce about four million ounces of gold per year. Over the past 15 years, production from these mines has fueled most of the rapid growth in Nevada's gold mining industry. For example, production from the Carlin Trend properties operated by Barrick Gold has propelled that company from a relatively small producer to an industry leader.

Newmex seized the opportunity to stake claims in the Carlin Trend when the previous claim owner was unable to pay yearly rental fees to the U.S. Bureau of Land Management.

Two groups of claims were staked about five miles apart from each other. The southern-most group, the EGC 2 and EGC 3 claims, consist of two non-adjacent groups of 16 claims each (32 in total). These claims abut privately owned lands that form a corridor between the two non-adjacent groups. The EGC 2 claim partially overlaps the Rossi Claim Block that is held by the Barrick Gold/Meridian Gold Joint Venture.

Meridian has announced that the Rossi Property contains a drill inferred resource of 600,000 ounces of gold, with a geologic resource of 1,000,000 ounces. The total resource for the Rossi property is 2.7 million tons at 0.373 opt gold. Barrick, operator of the Rossi Venture, is planning a surface and underground drilling program in the summer of 1999. Indications are positive that Rossi will be the newest and northern-most gold mine on the Carlin Trend sometime in the next few years.

Newmex believes that important north-south trending geologic structures found at the Bootstrap, Dee Mines, and Rossi Resource Area may extend several miles to the north to the EGC 2 and 3 claim blocks. These north-south structures are thought by most geologists to be related to ore formation.

The northern-most claims – EGC 1, EGC 4 and EGC 5 claims (70 in total) – are located about five miles north of the southern-most block. While these claims are farther away from producing properties, they are still within geologically favorable terrain. Newmex recently finalized a 20-year lease on very favorable terms with the owners of the Willow Claim Block. The Willow Claims (33 claims in total) are just to the north of the EGC 5 claims. Newmex now controls a block of 133 contiguous claims in this location.

Current exploration efforts have consisted of wide grid soil geochemical sampling and limited geologic mapping on both the southern and northern claim blocks. In addition to surface exploration, Newmex has approached adjacent fee-land owners and claim owners concerning a pooling of mineral interests in the area. The objective of the pooling agreement would be to form a large block of fee-land and mining claims that could be optioned to a major producing company. Negotiations for the pooling agreement are currently in the very early stages.

To the Shareholders of Newmex Minerals Inc:

I have audited the consolidated balance sheet of Newmex Minerals Inc. as at December 31, 1998 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

James A Forbes

James A. Forbes
Chartered Accountant
Calgary, Alberta, Canada
May 18, 1999

CONSOLIDATED BALANCE SHEET

As at December 31	1998	1997
Assets		
Current assets		
Cash	$ 6,767	$ 79,835
Accounts receivable	11,499	57,389
Deposits	30,000	–
	48,266	137,224
Fixed assets – net	2,632	4,896
Mineral Properties	1,865,533	475,646
	$ 1,916,431	$ 617,766
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 242,373	$ 15,815
Advances from Proprietary Energy Industries Inc. (note 3)	595,420	–
Provision for future site restoration costs	20,000	20,000
	857,793	35,815
Note payable (note 4)	475,875	–
Shareholders' Equity		
Share capital (note 5)	3,604,347	3,127,897
Deficit	(3,021,584)	(2,545,946)
	582,763	581,951
	$ 1,916,431	$ 617,766

Subsequent Event (note 8)

Approved by the board

Theodor Hennig, C.A.,
Vice President, Finance, Director

Peter J. Workum
President, Director

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

For the year ended December 31	**1998**	1997
Administrative Expenses		
Consulting fees	$ 43,751	$ 86,557
Settlement costs (note 9)	85,000	–
Depreciation	2,264	2,668
Interest – long-term debt	35,690	–
– other	37,441	–
Investor and public relations	15,624	32,980
Listing and filing fees	4,650	1,431
Office	63,148	53,442
Professional fees	4,600	4,000
Travel	4,144	8,097
Write-down of mineral properties	179,326	–
Loss before the undernoted	475,638	189,175
Loss on disposal of mineral properties	–	163,313
Loss for the Year	475,638	352,488
Deficit, beginning of year	2,545,946	2,193,458
Deficit, end of Year	$ 3,021,584	$ 2,545,946
Loss Per Share	$ 0.10	$ 0.20

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31	**1998**	1997
Cash provided by (used in)		
Operating Activities		
Loss for the period	$ (475,638)	$ (352,488)
Items not involving cash		
Loss on disposal of mineral properties	179,326	163,313
Depreciation	2,264	2,668
	(294,048)	(186,507)
Change in non-cash working capital	837,868	14,410
	543,820	(172,097)
Investing Activities		
Mineral property expenditures	(616,888)	(287,028)
Acquisition of mineral properties	(952,325)	–
Proceeds from disposal of mineral properties	–	100,000
	(1,569,213)	(187,028)
Financing Activities		
Common shares issued for cash	–	13,614
Common shares issued for mineral properties	476,450	201,000
Promissory note	475,875	–
	952,325	214,614
Decrease in Cash	(73,068)	(144,511)
Cash, beginning of year	79,835	224,346
Cash, end of Year	$ 6,767	$ 79,835

Year Ended December 31, 1998

1. NATURE OF OPERATIONS

The Company's principle business activity is the exploration for and acquisition of mineral properties with a view to bringing them into production in a reasonably short period of time. Recoverability of the costs of mineral properties is dependent upon various factors including the existence of economically recoverable reserves, the ability to obtain necessary financing to complete development, future profitable operations from the properties, or proceeds of disposition. Pending profitable operations, or disposal of the Company's properties, cash requirements must be provided by existing working capital and debt or equity financing.

2. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which in all material respects conform to the international accounting standards.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Apex Valley Resources Inc., and Kilo Distributors Ltd.

Mineral Properties

Acquisition costs of mineral properties together with direct exploration and development expenditures therein are deferred in the accounts. When production is attained, these costs are depleted using the unit of production method based upon estimated proven recoverable reserves. When deferred expenditures on individual properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are written-off when the decision to abandon is made.

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

Fixed assets

Fixed assets are recorded at cost. Depreciation expense is computed as follows:

Equipment – straight-line over five years

Computer equipment – 30% declining balance

3. ADVANCES FROM PROPRIETARY ENERGY INDUSTRIES INC.

The advances bear interest at 10% per annum and are convertible to common shares as outlined in note 8.

4. NOTE PAYABLE

Note payable bears interest at 10% per annum. The note is convertible into common shares at $1.00 per share at the option of Proprietary Energy Industries Inc.

5. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued	Number	Amount
Balance at December 31, 1996	7,894,975	$ 2,913,283
Issued for cash net of finder's fee of $2,500	55,555	22,500
Repurchased for cancellation	(6,035)	(8,886)
Issued for mineral properties	201,000	201,000
Balance at December 31, 1997	8,145,495	3,127,897
Consolidation 5 to 1	1,629,099	–
Issued for mining properties	4,282,875	476,450
Balance at December 31, 1998	5,911,974	$ 3,604,347

Stock Options

On December 31, 1998, the following options to purchase 608,875 common shares were outstanding:

Grant Date	Number of Shares	Terms
August 4, 1994	20,000	$2.00 per share, expiring August 4, 1999
October 18, 1995	41,000	$2.00 per share, expiring October 18, 2000
April 18, 1996	12,000	$2.00 per share, expiring April 18, 2001
May 23, 1997	60,000	$2.15 per share, expiring May 23, 2002
April 30, 1998	475,875	$1.00 per share, expiring April 30, 2003

6. INCOME TAXES

The Company has losses of $1,127,812 available to reduce future taxable income. These losses are due to expire as follows:

2000	$ 99,062
2001	158,070
2002	142,533
2003	320,723
2004	186,507
2005	220,917
	$ 1,127,812

The Company has also available $3,015,354 (1997- $1,870,248) in its asset pool to reduce future taxable income. No recognition has been given in these financial statements to the potential tax benefits associated with these losses and pool deductions.

7. RELATED PARTY TRANSACTIONS

a) During the year, the company paid $33,385 to Directors for consulting services. Management believes that these fees approximate those which would have been paid to non-related parties.

b) The note payable under "long-term debt" is due to Proprietary Energy Industries Inc., which is a related party by virtue of common management.

c) Included in accounts payable and accrued liabilities, is interest payable to Proprietary Energy Industries Inc. in the amount of $35,690.

d) During the year the company incurred interest charges from Proprietary Energy Industries Inc. in the amount of $73,131 at an annual rate of 10%.

8. SUBSEQUENT EVENTS

Subsequent to December 31, 1998, the Company received conditional approval from regulatory authorities to convert debt owing to Proprietary Energy Industries Inc., in the amount of $675,421, into 1,055,345 common shares at $0.64 per share.

9. SETTLEMENT COSTS

The company was a defendant in a legal action in connection with an agreement to acquire mining claims. During the year, the company settled this claim at a cost of $85,000. This obligation is to be discharged, subsequent to the Company's year-end, by a payment of $25,000 and by an issue of 75,000 common shares at $0.80 per share for $60,000.

10. FINANCIAL INSTRUMENTS

Fair value of financial statements

The carrying amount of accounts receivable, accounts payable and accrued liabilities and notes payable approximates fair value because the interest rates are close to the market rates.

11. YEAR 2000

Uncertainty due to the year 2000 issue

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effect of the Year 2000 issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operation and financial reporting may range from minor errors to significant systems failure, which could effect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

12. SEGMENTED INFORMATION

The Company is currently involved in one significant industry business segment – the exploration and development of mineral properties in the United States and Canada. The United States operations have identified assets of $1,309,824 (1997- $296,320).

CORPORATE INFORMATION

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STOCK EXCHANGE SYMBOL
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Trading Symbol: NMM

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